

Revisions to the guidelines on domestic natural gas pricing

On April 7, 2023, the Government of India ("GoI") has issued a notification ("**Notification**") amending the Domestic Natural Gas Pricing Guidelines, 2014 ("**2014 Gas Pricing Guidelines**"). Pursuant to the Notification, the price for domestic gas (produced from blocks covered under the 2014 Gas Pricing Guidelines) will now be determined basis the Indian crude basket price rather than being based on international benchmarks.

Background

The pricing regime for domestic natural gas has evolved over the years with India aiming to progressively move from regulated pricing to pricing freedom. Prior to 2014, natural gas sold from different blocks was to be sold at different prices depending on the regime in which such block was allocated/awarded. For instance:

- For blocks allocated under the nomination regime to National Oil Companies (until late 1970s), natural gas was to be sold at a price determined/fixed by the GoI i.e., Administered Pricing Mechanism ("**APM**");
- Subsequently, natural gas produced from certain new fields of existing nominated blocks was permitted to be sold at non-APM prices provided that the price for such gas was as per the GoI provided pricing schedule based on supply zones;
- For blocks allocated under the pre-NELP regime (blocks awarded between 1980-1995) and which were governed by the production sharing contracts ("**PSC**"), the price formula was specified in the PSC or was to be approved by the GoI; and
- For blocks awarded under the New Exploration and Licensing Policy ("**NELP**") regime (awarded between 1997 to 2010), price of gas was to be based on a formula/ price basis approved by the GoI.

To bring some uniformity in gas pricing, the GoI notified the 2014 Gas Pricing Guidelines. The 2014 Gas Pricing Guidelines provided a price determination formula which was based on international benchmarks¹ for determining the well head price of natural gas. The price so determined was notified every 6 (six) months by the Petroleum Planning and Analysis Cell ("**PPAC**") and was applicable to all gas produced in India (including gas produced from nomination blocks, NELP blocks, Pre-NELP blocks where the PSCs provides for approval of gas prices by the GoI with only a few noted exceptions (such as gas produced from blocks where (a) gas prices have been fixed contractually for a certain period of time, till the end of such period; (b) the PSC concerned provides for a specific formula for natural gas price indexation/fixation; and (c) pre-NELPPSCs which do not provide for GoI approval of formula/basis for gas prices).

¹ The International benchmarks were Henry Hub, National Balancing Point, Alberta Hub and Russia

Thereafter, between 2016 and 2023, in an attempt to move towards pricing freedom, several notifications were issued which are applicable for gas produced from certain types of fields and such blocks/fields have been carved out of the applicability of the 2014 Gas Pricing Guidelines. Therefore, as on date, gas produced from the following fields enjoys pricing freedom:

- For existing discoveries in deepwater, ultra-deep water and high temperature-high pressure areas which were yet to commence production as on January 1, 2016 and to future discoveries in such areas, pricing freedom subject to a ceiling price²;
- All hydrocarbons discovered and produced from the blocks awarded under the Hydrocarbon Exploration and Licensing Policy (“**HELP**”), introduced in 2016;
- Gas produced from coal bed methane blocks;
- Existing discoveries which were yet to commence commercial production as on July 1, 2018 and to future discoveries from fields located in the northern eastern region of India;
- New discoveries under existing contracts, in which the field development plan would be approved after February 28, 2019 (except for nomination fields where it would be permitted subject to the approval of the Directorate General of Hydrocarbons).

Notification

As a step to protect natural gas pricing from adverse market fluctuations in the international gas markets, the Notification has been issued to revise the 2014 Gas Pricing Guidelines and the price of gas has been linked to Indian Crude Basket. As per the Notification, following amendments to the 2014 Gas Pricing Guidelines have been brought in:

- the natural gas price under the 2014 Gas Pricing Guidelines will be 10% of the Indian Crude Basket Price (as defined by PPAC from time to time). Such prices would be declared by PPAC on a monthly basis.
- For the gas produced from nomination fields, the price shall be subject to a floor (\$4 (US Dollar four)/MMBTU) and a ceiling (\$6.5 (US Dollar six point five)/MMBTU) whereby the ceiling would increase by \$0.25 (US Dollar zero point twenty five)/MMBTU each year after 2 (two) financial years (FY 2023-24 and FY 2024-25).
- Gas produced specifically from new wells or well intervention in the nomination fields would be allowed 20% premium and such gas would be subject to Government’s policy related to commercial utilization of natural gas.
- Subject to provisions of the production sharing contracts, the price so declared by PPAC would also be applicable where the contracts of NELP or Pre-NELP blocks provide for government’s approval of prices. The floor and ceiling price which are applicable to the nomination blocks will not apply to these fields.
- PPAC will notify the prices under the 2014 Gas Pricing Guidelines (as amended by the Notification) valid from April 1, 2023 till the date of issue of this notification as well the prices under the revised notification for the remaining period of April 2023 i.e., day after the day of notification to the end of the month. For subsequent months, the prices will be applicable from the 1st day of the month.

JSA Comment

Prior to the amendments to the 2014 Gas Pricing Guidelines, domestic gas price was linked to international gas trading hubs and international market fluctuations directly impacted such price. Given the recent volatility in the international markets, revisions to the 2014 Gas Pricing Guidelines are a welcome step. Further, the linkage of natural gas pricing

² The MoPNG notified the ‘Marketing including Pricing Freedom for the Gas to be produced from Discoveries in Deepwater, Ultra Deepwater and High Pressure-High Temperature Areas Guidelines’. Ceiling price is notified by PPAC on a 6 (six) monthly basis.

to crude is also aligned to the prevalent industry practices. The Notification is a step towards pricing freedom and deregulation, and hopefully, this will spur investments in this sector.

Additionally, it is interesting to note that on one hand, the revisions to the gas pricing formula are likely to reduce gas price for piped natural gas (“PNG”) and compressed natural gas (“CNG”), thereby increasing margins for city gas distribution (“CGD”) networks entities and potentially reducing the price for customers, on the other hand, such gas pricing may be viewed as more restrictive for national oil companies, viz ONGC and OIL (being subject to a ceiling price). Also, while the price at which PNG and CNG are sold to retail customers is determined by entities operating CGD network and such entities have the freedom to determine such price vis-à-vis the retail customers, it is expected that the price reduction benefit will be passed-on to the retail customers.

Oil & Gas Practice

JSA has significant experience in handling diverse assignments in the Oil & Gas sector. The Oil & Gas practice is handled by domain expertise-based team which has various stakeholders on the value chain of the upstream, midstream and downstream activities on a wide range of transactions and assignments involving constitutional, legal, regulatory and policy advise. We regularly advise clients on all legal aspects of various projects and also in the negotiation and drafting of diverse contracts. Our expertise in the hydrocarbon sector covers legal advisory and assistance in relation to:

- Negotiations, drafting and/or advisory relating to contracts executed across the value chain such as Production Sharing/ Revenue Sharing Contracts, Joint Operating Agreements, Oil Field services, Drilling Contracts, Oil Rig Charter Hire, Crude Oil Sales Agreement, LNG/ Gas Sale and Purchase Agreements (spot, short, medium & long term), Gas Transportation Agreements, and related agreements.
- Engineering, procurement and construction contracts;
- Supply & offtake arrangements and associated transportation infrastructure;
- Sale, acquisition & financing of infrastructure & assets in the entire hydrocarbon value chain including structuring of transactions;
- All aspects of exploration and production activities including environmental and HSE issues;
- Legal, Regulatory and licensing issues in relation to operation of regassification/ storage terminals, refineries;
- Setting-up of greenfield LNG terminals, floating regasification terminals, refineries, and petrochemical complexes;
- Project financing in the Oil & Gas sector, including refineries and city gas projects;
- Licensing (state and federal level);
- Strategic advice in relation to dealing on diverse issues with federal government and state government(s) including with nodal ministries, departments, regulatory bodies like Ministry of Petroleum and Natural Gas, Directorate General of Hydrocarbons, Ministry of Environment Forests and Climate Change and Petroleum and Natural Gas Regulatory Board;
- General corporate issues affecting the Oil & Gas players, including foreign investment and employment related advisory;
- Competition & regulatory issues including representation before the regulatory commissions; and
- Dispute Resolution at various fora including alternate dispute resolution.

This Prism has been prepared by:



Venkatesh Raman Prasad

Partner



Shivani Chugh

Partner



Sweta Singh

Senior Associate



17 Practices and
24 Ranked Lawyers



16 Practices and
11 Ranked Lawyers



7 Practices and
2 Ranked Lawyers



11 Practices and
39 Ranked Partners
IFLR1000 APAC Rankings 2022

Banking & Finance Team
of the Year

Fintech Team of the Year

Restructuring & Insolvency
Team of the Year



Among Top 7 Best Overall
Law Firms in India and
10 Ranked Practices

13 winning Deals in
IBLJ Deals of the Year

10 A List Lawyers in
IBLJ Top 100 Lawyer List



Banking & Financial Services
Law Firm of the Year 2022

Dispute Resolution Law
Firm of the Year 2022

Equity Market Deal of the
Year (Premium) 2022

Energy Law Firm of the Year 2021



Ranked #1
The Vahura Best Law Firms to
Work Report, 2022

Top 10 Best Law Firms for
Women in 2022

For more details, please contact km@jsalaw.com

www.jsalaw.com



Ahmedabad | Bengaluru | Chennai | Gurugram | Hyderabad | Mumbai | New Delhi



This prism is not an advertisement or any form of solicitation and should not be construed as such. This prism has been prepared for general information purposes only. Nothing in this prism constitutes professional advice or a legal opinion. You should obtain appropriate professional advice before making any business, legal or other decisions. JSA and the authors of this prism disclaim all and any liability to any person who takes any decision based on this publication.